WARNING SIGNS OF DEBT

1. Using credit for items that used to be purchased with cash.
2. Getting a loan to pay existing debt.
3. Charging more each month than you make in payments.
4. Making only the minimum required payment.
5. Juggling rent or mortgage and other large bills to pay debts.
6. Rotating bills: paying half one month and half the next.
7. Using a checking account overdraft feature to pay bills.
8. Using credit card advances to pay living expenses.
9. Writing post-dated checks.
10. Taking out a new loan before an old one is repaid.
11. Being chronically overdrawn at the bank.
12. Borrowing frequently from friends and relatives to make ends meet.
13. Using savings to pay bills that used to be paid by cash or check.
14. Depending on overtime or moonlighting to make ends meet.
15. Borrowing against life insurance with little chance of repayment.
16. Being at or near maximum credit limits.
17. Being chronically late paying bills.
18. Increasing the percentage of take-home pay spent on consumer debt.
19. Having late penalties assessed on outstanding obligations.
20. Receiving calls or overdue notices from creditors.
21. Receiving threats of repossession or legal action.
22. Accumulating negative information on a credit report.
23. Being denied credit due to negative remarks in a credit report.
24. Hiding credit-card statements and bills from others.
25. Worrying about money and financial distress.

Experiencing any of the above signs? Having trouble paying your bills? Getting past due notices from creditors? Are your accounts being turned over to debt collectors? Are you worried about losing your home or your car?

You're not alone. Many people face financial crises at some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming, but often can be overcome. The fact of the matter is that your financial situation doesn't have to go from bad to worse.

If you or someone you know is in financial hot water, consider these options: realistic budgeting, credit counseling from a reputable organization, debt consolidation, or bankruptcy. How do you know which will work best for you? It depends on your level of debt, your level of discipline, and your prospects for the future.

SELF HELP

Developing a Budget: The first step toward taking control of your financial situation is to do a realistic assessment of how much money comes in and how much money you spend. Start by listing your income from all sources. Then, list your "fixed" expenses — those that are the same each month — such as your mortgage payments or your rent, car payments, or insurance premiums. Next, list the expenses that vary, such as entertainment, recreation, or clothing. Writing down all your expenses — even those that seem insignificant — is a helpful way to track your spending patterns, identify the expenses that are necessary, and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance, and education. See our Brochure on What is a Budget?

Your public library has information about budgeting and money management techniques. In addition, many universities, military bases, credit unions, and housing authorities operate nonprofit counseling programs.

Contacting Your Creditors... Contact your creditors immediately if you are having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector. At that point, the creditors have given up on you.

Dealing with Debt Collectors... The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not call you before 8 a.m., after 9 p.m., or at work if the collector knows that your employer doesn't approve of the calls. Collectors may not harass you, make false statements, or use unfair practices when they try to collect a debt. Debt collectors must honor a written request from you to cease further contact. See our Brochure on Fair Debt Collection.

CREDIT COUNSELING

If you aren't disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling service. Your creditors may be willing to accept reduced payments if you enter a debt repayment plan with a reputable organization. In these plans, you deposit money each month with the credit counseling service. Your deposits are used to pay your creditors according to a payment schedule developed by the counselor. As part of the repayment plan, you may have to agree not to apply for — or use — any additional credit while you're participating in the program.

A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Ask the credit counseling service for an estimate of the time it will take to complete the plan. Some credit counseling services charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time. Some credit counseling services are funded, in part, by contributions from creditors.

While a debt repayment plan can eliminate much of the stress that comes from dealing with creditors and overdue bills, it does not mean you can forget about your debts. You still are responsible for paying any creditors whose debts are not included in the plan. You are responsible for reviewing monthly statements from your creditors to make sure your payments have been received. If your repayment plan depends on your creditors agreeing to lower or eliminate interest and finance charges, or waive late fees, you are responsible for making sure these concessions are reflected on your statements.

A debt repayment plan does not erase your credit history. Under the Fair Credit Reporting Act, accurate information about your accounts can stay on your credit report for up to seven years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments may have been late or missed altogether, or that there are write-offs or other concessions. A demonstrated pattern of timely payments will help you obtain credit in the future. See our Brochure on Choosing a Credit Counselor.

AUTO AND HOME LOANS

Debt repayment plans usually cover unsecured debt. Your auto and home loan, which are considered secured debt, may not be included. You must continue to make payments to these creditors directly.

Most automobile financing agreements allow a creditor to repossess your car any time you're in default. No notice is required. If your car is repossessed, you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. If you can't do this, the creditor may sell the car. If you see default approaching, you may be better off selling the car yourself and paying off the debt: You would avoid the added costs of repossession and a negative entry on your credit report. See our Brochure on Vehicle Repossession.

If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure... Most lenders are willing to work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. When you resume regular payments, though, you may have to pay an additional amount toward the past due total. Other lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly debt. Ask whether additional fees would be assessed for these changes, and calculate how much they total in the long term.

If you and your lender cannot work out a plan, contact a housing counseling agency. Some agencies limit their counseling services to homeowners with FHA mortgages, but many offer free help to any homeowner who's having trouble making mortgage payments. Call the local office of the Department of Housing and Urban Development or the housing authority in your state, city, or county for help in finding a housing counseling agency near you. See our Brochure on How to Avoid Foreclosure.

DEBT CONSOLIDATION

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. Think carefully before taking this on. These loans require your home as collateral. If you can't make the payments — or if the payments are late — you could lose your home.

The costs of these consolidation loans can add up. In addition to interest on the loan, you pay "points." Typically, one point is equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

BANKRUPTCY

Personal bankruptcy generally is considered the debt management option of last resort because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years, making it difficult to acquire credit, buy a home, get life insurance, or sometimes, get a job. However, it is a legal procedure that offers a fresh start for people who can't satisfy their debts.

There are two kinds of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal court. The current filing fee is $160. Attorney fees are additional.

Chapter 13... Also known as reorganization, Chapter 13 allows debtors to keep property, like a mortgaged house or a car, that they otherwise might lose. Reorganization may allow you to pay off a default during a three-to-five-year period, rather than surrender any property.

Chapter 7... Known as straight bankruptcy, Chapter 7 involves liquidation of all assets that are not exempt in your state. Exempt property may include work-related tools and basic household furnishings. Some of your property may be sold by a court-appointed official or turned over to your creditors. You can file for Chapter 7 only once every six years.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow people to keep certain assets, although exemption amounts vary among states. Note that personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. And unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it. See our Brochures Bankruptcy Facts and How to Avoid Bankruptcy.

DAMAGE CONTROL

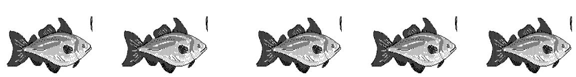
Turning to a business that offers help in solving debt problems may seem like a reasonable solution when your bills become unmanageable. Be cautious. Before you do business with any company, check it out with your local consumer protection agency or the Better Business Bureau in the company's location.

Some businesses that offer debt counseling and reorganization plans may charge high fees and fail to follow through on the services they sell. Others may misrepresent the terms of a debt consolidation loan, failing either to explain certain costs or to mention that you're signing over your home as collateral. Businesses advertising voluntary debt reorganization plans may not explain that the plan is a Chapter 13 bankruptcy, tell you everything that's involved, or help you through what can be a complex and lengthy legal process.

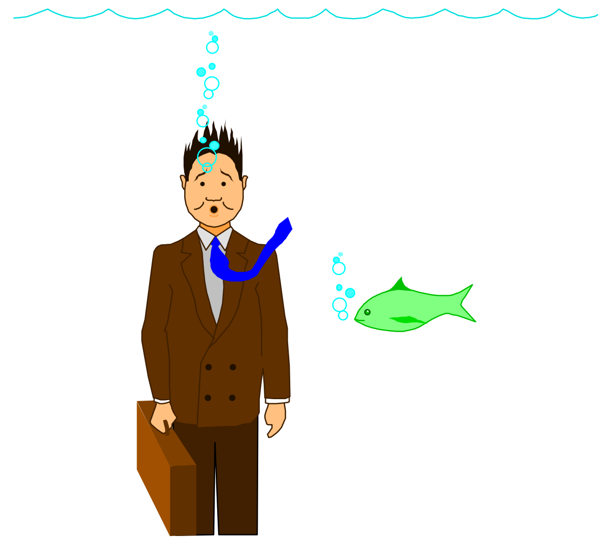
In addition, some companies guarantee you a loan if you pay a fee in advance. The fee may range from $100 to several hundred dollars. Resist the temptation to follow up on advance-fee loan guarantees. They may be illegal. Many legitimate creditors offer extensions of credit through telemarketing and require an application or appraisal fee in advance. But legitimate creditors never guarantee that the consumer will get the loan — or even represent that it is likely. Under the federal Telemarketing Sales Rule, a seller or telemarketer who guarantees or represents a high likelihood of your getting a loan or some other extension of credit may not ask for or receive payment until you've received the loan.

You should also avoid credit repair clinics. Companies coast to coast appeal to consumers with poor credit histories, promising to clean up credit reports for a fee. They don't deliver. What's more, they can't deliver: They can't do anything for you that you can't do for yourself. After you pay them hundreds — or even thousands — of dollars in up-front fees, they can do nothing to improve your credit report. Indeed, many simply vanish with your money. Only time and a conscientious effort to repay your debts will improve your credit report.

If you're thinking about getting help to stabilize your financial situation, be cautious. Find out what services the business provides and what it costs. Don't rely on oral promises. Get everything in writing. Check out any company with your local consumer protection office and the Better Business Bureau in the company's location. They may be able to tell you whether other consumers have registered complaints about the business.



DEEP IN DEBT?



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